

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4740-01
Bill No.: SB 868
Subject: Business and Commerce; Economic Development Dept.; Revenue Dept.;
Taxation and Revenue - Sales and Use
Type: Original
Date: February 8, 2010

Bill Summary: Would create a state and local sales and use tax exemptions for data storage centers and server farm facilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
School District Trust	(Unknown)	(Unknown)	(Unknown)
Conservation Commission	(Unknown)	(Unknown)	(Unknown)
Parks, and Soil and Water	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

In response to similar proposals, officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would not be any additional costs or savings to their organization as a result of this proposal. The proposal would provide a sales tax exemption for certain inputs of production used by expanding data storage centers, to the extent the amount of new inputs exceed current input levels. BAP officials stated that qualified data center projects would have minimum new investment requirements. An expanding facility would be required to make a \$1 million investment within 12 months and a new facility would be required to make a \$5 million investment over 36 months.

BAP officials assume this proposal would not impact current general and total state revenues, but could slow future growth. This program could encourage other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate. BAP officials stated that DED officials reported 377 firms in the qualifying industrial classification codes in the autumn of 2009.

Officials from the **Department of Conservation** (MDC) assume this proposal would authorize an state and local sales and use tax exemption for data storage center and server farm facilities.

MDC officials stated that this proposal could have a significant negative fiscal impact on MDC funds which could exceed \$100,000 annually. However, MDC is unable to provide an exact amount and will rely on DOR for the fiscal impact of this legislation.

Officials from the **Department of Economic Development** (DED) assume this proposal would create tax exemptions for data storage centers and server farm facilities. The data storage centers and server farm facilities that seek a tax exemption would be required to submit a project plan to the DED, and DED would be responsible for certifying the projects in conjunction with the Department of Revenue (DOR). The proposed legislation would also require random audits to ensure compliance with the intent the data storage centers and server farm facilities indicated in their project plan.

ASSUMPTION (continued)

The Division of Business and Community Services anticipates the need for one additional FTE Economic Development Incentive Specialist III to ensure compliance and perform the auditing functions required by the proposed legislation. This employee would be responsible for reviewing the project plan applications to make sure they meet the criteria of the program and for conducting random audits to ensure compliance with the program. The costs indicated for the additional employee include one-time expenditures for systems furniture, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computers, professional development and travel.

DED submitted a cost estimate for the proposal including salaries, benefits, equipment, and expense totaling \$63,561 for FY 2011, \$71,571 for FY 2012, and \$73,903 for FY 2013.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DED could absorb the additional workload with existing resources. If this proposal created an unanticipated increase in the DED workload, or if multiple such proposals were implemented, resources could be requested through the budget process.

Officials from the **Department of Elementary and Secondary Education** assume this proposal would not impact their organization or local schools, other than any resulting impact from the reduction of state revenues.

Officials from the **Department of Natural Resources** (DNR) stated that this proposal, if enacted, would provide state and local sales and use tax exemptions for all machinery, equipment, computers, electrical energy, gas, water and other utilities including telecommunication services used in new data storage centers and server farm facilities. It would also provide a state and local sales and use tax exemption for purchases of tangible personal property for the construction, repair, or remodeling of a new data storage center or server farm facility. The proposal would also create a state and local sales and use tax exemption for existing data storage centers and server farm facilities for all machinery, equipment, computers, electrical energy, gas, water and other utilities including telecommunication services.

ASSUMPTION (continued)

The Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Any additional sales tax exemption would be an unknown loss to the Parks and Soils Sales Tax Funds. Adding exemptions from sales tax would also have a negative effect on total state revenue. Exempting sales tax for the purposes described in this proposal would decrease the amount of funding available in the Parks & Soils Sales Tax Funds for long term operation of state parks and historic sites and assistance to agricultural landowners through voluntary programs.

DNR officials provided an estimate of unknown revenue reductions for the General Revenue Fund and the Parks and Soils Sales Tax Fund.

Officials from the **Department of Revenue** (DOR) assume this proposal would create additional exemptions from sales taxes beginning August 28, 2010.

The exemption would apply to all electrical energy, gas, water and other utilities including telecommunication services used in a new data storage center or server farm, all machinery, equipment and computers used in any new data storage center or server farm facility, and all sales at retail of tangible personal property and materials for constructing, repairing, or remodeling any new data storage center or server farm facility. An expanding data storage center or server farm facilities could also be exempt from sales and use tax with the same criteria as with a new data storage center or server farm facility.

Entities would be required to submit a plan to the Department of Economic Development (DED) to determine eligibility. DED would certify the project to DOR, and DOR would issue an exemption certificate to the taxpayer.

DED would create rules to carry out the provisions of this legislation, and would conduct random audits.

DOR Collections and Tax Assistance would anticipate additional contacts due to this exemption, and estimated that one FTE Revenue Processing Technician I (Range 10, Step L) would be required for every additional 24,000 contacts annually to the registration section, and one FTE Revenue Processing Technician I (Range 10, Step L) would be required for every additional 4,800 contacts annually to the tax assistance offices.

ASSUMPTION (continued)

DOR Sales Tax would anticipate that these exemptions would be processed as refunds, and one FTE Revenue Processing Technician I (Range 10, Step L) would be required for completion of amended returns and processing refunds.

In summary, DOR officials submitted an estimate of the cost to implement this proposal including three additional employees with benefits, expense, and equipment totaling \$118,594 for FY 2011, \$126,244 for FY 2012, and \$130,032 for FY 2013.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DOR could absorb the additional workload with existing resources. If this proposal created a significant unanticipated increase in the DOR workload, or if multiple such proposals were implemented, resources could be requested through the budget process.

The Department and OA-ITSD (DOR) would also make programming changes to the sales tax processing system (MITS). DOR did not provide an estimate of IT costs for the programming changes.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of normal activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from **Cass County** assumed the potential fiscal impact of a similar proposal (HB 1513, LR 4131-01) is unknown; county officials assume there could be a positive impact in terms of possible job creation.

Officials from **St. Louis County** assume the proposal would not result in a large revenue reduction for their organization.

Officials from the **City of Centralia** assume this proposal would have no fiscal impact on their organization.

Oversight will indicate an unknown loss to those state funds which receive sales and use tax revenues, and to local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - sales tax exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction</u> - sales tax exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction</u> - sales tax exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
PARKS, AND SOIL AND WATER FUNDS			
<u>Revenue reduction</u> - sales tax exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
LOCAL GOVERNMENTS			
<u>Revenue reduction</u> - sales tax exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

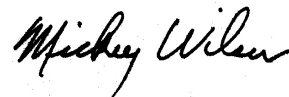
FISCAL DESCRIPTION

The proposed legislation would create state and local sales and use tax exemptions for data storage centers and server farm facilities.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Conservation
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Revenue
St. Louis County
City of Centralia



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Director
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